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C O N F I D E N T I A L BONN 07012

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E. O. 11652: GDS

TAGS: ENRG, EEC, WG

SUBJECT: ENERGY: FRG VIEWS ON

INTERNATIONAL COOPERATION AND EC COMMISSION
PROPOSALS

1. SUMMARY. IN A MAY 15 DISCUSSION WITH THE ECON/
COMMERCIAL MINISTER, LANTZKE (ECONOMICS MINISTRY
ASSISTANT SECRETARY FOR ENERGY) ELABORATED EXTENSIVELY
FRG VIEWS ON CONSUMER COUNTRY COOPERATION AND EC
COMMISSION PROPOSALS. THE FRG BELIEVES A US- EC-
JAPANESE CONSULTATIVE MECHANISM IS NECESSARY AND AWAITS
U. S. PROPOSALS IN THIS REGARD. IT CONTEMPLATES
GREATER FRG AUTHORITY OVER PETROLEUM IMPORTS TO ENABLE
IT TO FOLLOW THROUGH ON POSSIBLE UNDERTAKINGS BY
CONSUMERS. INCREASINGLY, HOWEVER, THE FRG IS LOOKING
FOR CONCRETE ASSURANCE THAT THE PETROLEUM " HAVE- NOTS"
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WILL BE TAKEN CARE OF IN ANY SUCH COOPERATION ARRANGEMENTS. LANTZKE POINTED TO THE EC COMMISSION' S PROPOSAL OF A CRUDE OIL POOL AS A SPECIFIC EFFORT TO ADDRESS THIS REQUIREMENT OF THE FRG. END SUMMARY.

2. THE ECON/ COMMERCIAL MINISTER REVIEWED SEVERAL POINTS IN THE PRESIDENT' S ENERGY MESSAGE AND NOTED DR. KISSINGER' S AND UNDER SECRETARY CASEY' S STATEMENTS THAT FURTHER DECISIONS REMAINED TO BE MADE IN THE INTERNATIONAL AREA. DR. LANTZKE NOTED THAT THE CHANCELLOR HAD RETURNED FROM WASHINGTON WITH THE IMPRESSION THAT A SECOND SET OF U. S. DECISIONS, ON CONSUMER COOPERATION AND OTHER INTERNATIONAL ISSUES, WOULD BE TAKEN IN COMING MONTHS. THE EC COMMISSION' S MEMORANDUM ON ENERGY, HE NOTED, INCLUDED A SURPRISINGLY CLEAR ENDORSEMENT OF A TRILATERAL US- EC- JAPANESE CONSULTATIVE BODY ON ENERGY (TO WHICH THE FRENCH, HE ADDED, HAD RAISED NO OBJECTION).

3. LANTZKE SAID THAT THE FRG AGREES THAT A MECHANISM FOR THREE- WAY CONSULTATION IS NECESSARY. THE BRITISH, HE SAID, HAVE SUGGESTED SOMETHING LIKE A TRILATERAL AGREEMENT, AN IDEA ON WHICH HE WAS NOT WILLING TO COMMENT. LANTZKE RAISED FOUR ASPECTS OF EVENTUAL CONSUMER COOPERATION ARRANGEMENTS OF CONCERN TO THE FRG, A) ASSURANCES FOR THE " HAVE- NOTS", B) THE FORUM FOR CONSULTATION, C) AVOIDANCE OF CONFRONTATION WITH PRODUCERS, AND D) THE DEGREE OF GOVERNMENT INTERVENTION NEEDED TO FOLLOW THROUGH ON ANY OBLIGATIONS ASSUMED.

4. ON THE FIRST POINT LANTZKE SEEMED TO CONSIDER THAT IN CONSUMER COOPERATION THE INTERESTS OF COUNTRIES WITH EXTENSIVE OVERSEAS PRODUCTION WERE DIFFERENT FROM THOSE OF THE " HAVE- NOTS." THE U. S. AND THE U. K. HAD A CLEAR INTEREST IN LIMITING BILATERAL DEALS WITH PRODUCING COUNTRIES, BUT THE FRG NEEDED TO ASSURE L) THAT THE GERMAN COMPANIES REMAINED FREE TO EXPAND THEIR ACTIVITY IN PRODUCING AND BUYING CRUDE AND 2) THAT GERMANY HAD EQUITABLE ACCESS TO CRUDE AVAILABLE TO THE INTERNATIONAL COMPANIES AND TO NATIONAL COMPANIES
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IN PRODUCER COUNTRIES. THIS IS NOT TO SAY THAT THE GERMAN GROUP OF COMPANIES WOULD BE EXCLUDED FROM SPECIFIC COMMITMENTS. IN FACT, THE FRG GOVERNMENT COULD UNDERTAKE TO COORDINATE THE FOLLOW THROUGH OF GERMAN COMPANIES ON ANY COMMITMENTS UNDER CONSUMER COOPERATION ARRANGEMENTS. THE FRG IS DISTURBED, HOWEVER, ABOUT REPORTS OF JAPANESE DEALINGS WITH

PRODUCER COUNTRY GOVERNMENTS. LANTZKE HAD IN HAND A DPA REPORT FROM TOKYO WHICH CITED THAT THE JAPANESE GOVERNMENT WAS ABOUT TO SIGN LONG- TERM SUPPLY AGREEMENTS WITH IRAN, SAUDI ARABIA, KUWAIT AND ABU DHABI. HE WAS NOT SURE SUCH REPORTS WERE THE LAST WORD FROM TOKYO OR RUMORS PLANTED BY THOSE INTERESTED IN UNDERMINING THE BASIS FOR US- EC- JAPANESE COOPERATION.

5. ON THE SECOND AND THIRD POINTS LANTZKE BELIEVED IT WOULD BE VERY DIFFICULT TO ESTABLISH A NEW US- EC- JAPANESE BODY ON ENERGY WITHOUT APPEARING TO FORM AN ANTI- OPEC BLOC, AN IMAGE THE FRG WAS ANXIOUS TO AVOID. THIS CONSIDERATION ARGUED FOR ASSOCIATING ANY NEW CONSULTATIVE MECHANISM WITH THE OECD AND FOR KEEPING IT INFORMAL. THE MORE SENSITIVE ISSUES MAY STILL HAVE TO BE TREATED IN COORDINATED BILATERAL DISCUSSIONS.

6. ON THE FOURTH POINT, LANTZKE FELT THERE WAS A QUESTION HOW FAR GOVERNMENTAL COOPERATION COULD GO BEFORE GOVERNMENTS, IN CARRYING OUT THEIR RESPECTIVE COMMITMENTS, HAD TO SQUEEZE PRIVATE ACTIVITY OUT OF THEIR ENERGY MARKETS. THIS QUESTION SEPARATED THE GERMANS AND FRENCH IN THE EC. THE FRENCH WANT A GOVERNMENT- CONTROLLED MARKET, BECAUSE SUCH CONTROL WILL BE NECESSARY FROM TIME TO TIME. THE FRG WAS NOT WILLING TO ADMINISTER CONTROLS AT TIMES WHEN THEY WERE NOT NEEDED. THE FRG WOULD, HOWEVER, BE WILLING TO ADOPT (EC- WIDE) A SUPERVISORY SYSTEM FOR IMPORTS, INVOLVING LICENSING, IF THE FRG COULD ADMINISTER IT VERY LOOSELY, E. G. THROUGH AUTOMATIC LICENSING, EXCEPT WHEN REAL CONTROL WAS NECESSARY. " WHEN
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NECESSARY" COULD, FOR THE FRG, ENCOMPASS BOTH PERIODS OF SHORT- TERM SHORTAGE AND OCCASIONS WHEN CONSUMERS WERE OBLIGATED TO BOYCOTT EXPROPRIATION OIL (E. G. FROM BP' S FORMER LIBYAN PROPERTIES).

7. THE ECONOMIC/ COMMERCIAL MINISTER WELCOMED THE EC COMMISSION MEMORANDUM' S ENDORSEMENT OF INTERNATIONAL COOPERATION AND COMMISSIONER SIMONET' S RETREAT, IN HIS STATEMENTS TO CODEL CANNON, FROM SOME OF HIS PREVIOUS COMMENTS. LANTZKE ALSO FOUND THE FINAL COMMISSION MEMORANDUM CONSIDERABLY MORE CONSTRUCTIVE THAN EARLIER VERSIONS. HE NOTED, HOWEVER, THAT PREVIOUS COMMISSION PAPERS LEFT SOME CAUSE FOR CONCERN AS TO WHAT SOME OF THE GENERAL LANGUAGE WAS MEANT TO COVER AND AS TO THE

FURTHER EFFORT NEEDED TO MAKE THE CONSTRUCTIVE APPROACH "STICK". LANTZKE SAID HE WOULD GET A BETTER READING ON SIMONET'S STATE OF MIND WHEN HE VISITED BONN MAY 16.

8. CONCERNS ABOUT WHAT WORDS MEAN, LANTZKE SAID, WOULD NOT PREVENT THE FRG FROM APPROVING THE COMMISSION MEMORANDUM AT THE MAY 22 ENERGY COUNCIL. AT THAT TIME THE FRG WOULD, HOWEVER, RAISE TWO SUBSTANTIVE PROBLEMS WITH THE COMMISSION MEMORANDUM. FIRST, WHILE THE FRG CANNOT OBJECT TO THE COMMISSION'S EXAMINING ANYTHING IT WANTS, THE FRG HAS SERIOUS DOUBTS THAT "CONCERTATION" IN THE FORM OF COMMISSION REVIEW OF COMPANIES INVESTMENT PLANS, 5-YEAR IMPORT PROGRAMS, TRANSPORTATION ARRANGEMENTS, ETC. WILL LEAD TO ANYTHING USEFUL. RATHER THAN COMMISSION "CONCERTATION" WITH FIRMS, THE FRG WOULD PREFER CONSULTATION WITH THE INDUSTRY BY AN EC BODY CONSISTING OF MEMBER STATE REPRESENTATIVES AS WELL AS THE COMMISSION. SECOND, THE FRG WAS NOT HAPPY ABOUT THE NOTION OF "APPROVED COMPANIES" IF THIS MEANT THAT TWO KINDS OF COMPANIES, APPROVED AND UNAPPROVED, WOULD OPERATE IN THE SAME MARKET. LANTZKE CONSIDERED SUCH A SYSTEM IMPRACTICAL, PERHAPS EVEN UNWORKABLE.

9. WE PRESSED LANTZKE AS TO WHETHER THESE VIEWS ON "APPROVED COMPANIES" MEANT THAT THE FRG WAS SIMILARLY COOL TOWARD THE CONCEPT OF BALANCING CRUDE
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AVAILABILITIES AMONG EC FIRMS. LANTZKE SAID THE RESERVE POOL CONCEPT WAS INTENDED TO ADDRESS THE NEEDS OF THE EC "HAVE-NOTS", PARTICULARLY GERMANY, AND THE FRG COULD NOT OBJECT TO THIS. HE ADDED THAT HIS INITIAL UNDERSTANDING OF THE POOL CONCEPT WAS THAT CRUDE DEFICIT COMPANIES, LIKE GERMANY'S VEBA, WOULD HAVE TO BUY FROM EC CRUDE SUPPLIES COMPANIES RATHER THAN, SAY, NIOC OF IRAN. THIS WAS OBJECTIONABLE TO THE FRG, BUT IT HAD NOW BEEN CLARIFIED THAT THE INTENT OF THE POOL CONCEPT WAS THE OPPOSITE: THAT IS, CRUDE SURPLUS COMPANIES LIKE BP WOULD BE OBLIGATED TO NEGOTIATE FIRST WITH EC CRUDE DEFICIT COMPANIES LIKE VEBA. WE NOTED THAT WE PERSONALLY HAD CONSIDERABLE DIFFICULTY IN SQUARING THIS CONCEPT WITH CONSUMER COUNTRY COOPERATION. LANTZKE SAID THE FRG HAD NO GREAT EXPECTATIONS REGARDING THE EC RESERVE POOL PROPOSAL, BUT LEFT THE CLEAR MESSAGE THAT IT IS AT LEAST AN EFFORT TO

ADDRESS THE PROBLEM OF THE "HAVE-NOTS" IN ANY MEANTY COOPERATION ARRANGEMENT AMONG CONSUMERS.

1 O. COMMENT: WE ARE ONCE AGAIN IMPRESSED HOW MUCH
AND HOW RAPIDLY FRG VIEWS ON THE ORGANIZATION OF ITS
ENERGY MARKET HAVE CHANGED. IMPLICIT, BUT RARELY
STATED, IS A NEW ASSESSMENT OF THE INTERNATIONAL
COMPANIES' ROLE AND PROSPECTS. THE RESERVE POOL
CONCEPT, FOR EXAMPLE, SEEMS TO CONTEMPLATE THE
INTERNATIONALS BEING INDUCED TO SPLIT OFF PART OF THEIR
CRUDE SOURCES FOR EXCLUSIVE CONTROL BY THEIR COMMUNITY
AFFILIATES. (OBVIOUSLY THE COMMUNITY AFFILIATE CAN NOT
COMMIT ALL OF THE PARENT' S RESERVES TO A COMMUNITY
POOL). THERE SEEMS TO BE A JUDGM
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